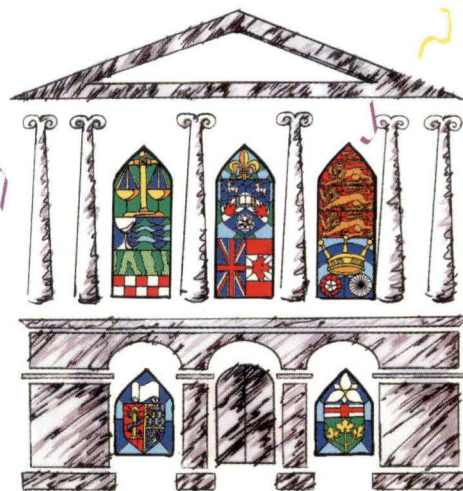




LAW SOCIETY OF UPPER CANADA
BARREAU DU HAUT-CANADA

1996 Annual Report



200 yrs
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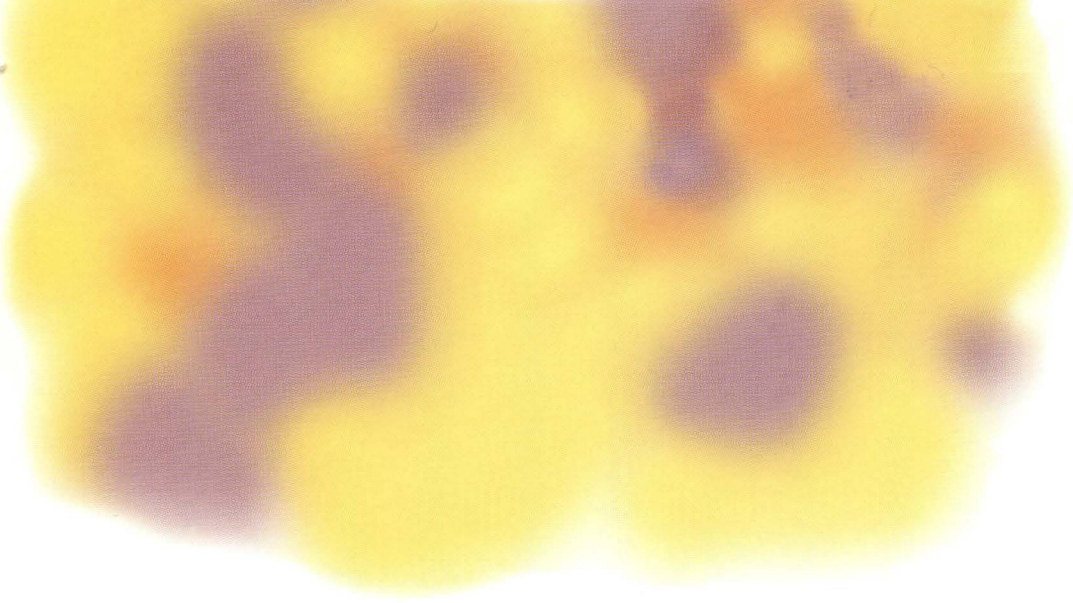
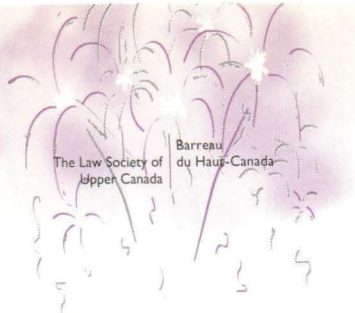


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Introduction

The Law Society of Upper Canada

The Law Society of Upper Canada is the governing body of Ontario's legal profession. Founded in 1797 and incorporated in 1822, the Society is one of the oldest professional organizations in Canada. The Society is responsible for the education, licensing, supervision and disciplining of the province's lawyers in order to ensure the public is provided with competent and professional legal services.

The Society's affairs are governed by forty-four governors known as benchers — forty of whom are elected by members of the legal profession every four years, and four (lay benchers) who are non-lawyers chosen from the general public and appointed by the Lieutenant Governor-in-Council. As well, there are several, non-voting ex-officio benchers.

The Mission Statement of the Law Society of Upper Canada

The Law Society of Upper Canada exists to govern the legal profession in the public interest by:

- ensuring that the people of Ontario are served by lawyers who meet high standards of learning, competence and professional conduct; and
- upholding the independence, integrity and honour of the legal profession;

for the purpose of advancing the cause of justice and the rule of law.

Message from the Treasurer



E. Susan Elliott
Treasurer

Nineteen-ninety-six was a pivotal year for the Law Society of Upper Canada. In June benchers adopted the policy governance model, effectively transforming the way Convocation has conducted business over the past two centuries.

Simply put, policy governance clearly defines roles — Convocation focuses on setting policy and providing leadership, while Society management is given the task of implementing Convocation's decisions and carrying out day-to-day operations. The changes eliminated an old system which often had governors and managers sharing responsibility, while failing to define who was ultimately responsible for results.

The new governance model doesn't leave roles to chance. A code of conduct for benchers outlines their responsibilities as trustees on behalf of the public and members. Similarly, policies are in place which clearly define the parameters within which management must operate as it turns Convocation's policy into practical programs and services for members and the public. By knowing who is to do what, and by defining accountability, the Society is left better able to assist the profession and serve the public interest.

The old way of doing things was not wrong — it had simply grown ineffectual given the realities of a changing world. The former method of governance came to restrict Convocation's creativity and effectiveness. Now the collective intelligence and thinking of Convocation can be directed at leading the profession. Benchers can spend their time on strategy and policy and time spent is now targeted at the big picture instead of the day-to-day details.

The changes in Convocation are not stand alone solutions. There is a transformation occurring also on the administrative side of the Law Society where CEO John Saso is leading a restructuring in the search for greater efficiency and excellence in service. Together, the changes are streamlining the Society, making it more in tune with the needs of members and the public. The end result will be a more flexible, accountable and responsive organization, able to react quickly to a rapidly changing profession.

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Much of Convocation's work in 1996 was about building a foundation with policy governance so that future decisions will reflect the needs of the public and the membership. Benchers have already begun debate on crucial issues and important committee work is well underway, but the story of that progress will have to wait for next year's annual report.

It is an honour and privilege to be Treasurer of the Law Society. And while this message is meant to be a look back at the year past, I must say it has been especially gratifying to hold the chair during 1997, the Society's 200th anniversary year.

Travelling the province to present the Society's 1997 Bicentennial Awards of Merit to 62 richly deserving members of our profession has afforded me a special opportunity to meet many lawyers. What I've encountered is a profession dedicated to serving the public, and one that is also experiencing the same unrelenting and profound changes which are having such an impact on the rest of society — changes such as increasing competitiveness, rising client expectations and encroachment of paraprofessionals in areas once exclusively served by the legal profession.

As the profession evolves in response to the marketplace, the new governance model put in place in 1996 will support thoughtful change. It will ensure that the Society's long history of leadership, of offering direction and guidance to the profession, and of guarding the public interest will continue well into the next century.



E. Susan Elliott

Treasurer

Message from the CEO



John Saso
Chief Executive Officer

The past year — 1996 — was one of significant progress for operations at the Law Society of Upper Canada. We initiated major changes and set ourselves ambitious performance targets. Our commitment is to work more efficiently and cost effectively in order to improve the quality of our services and our responsiveness to members and the public. I am also pleased to report that the Society's internal control mechanisms have substantially improved in the past year.

Financial Highlights

We are pleased to report that the General Fund produced positive results in relation to the planned budgeted deficit. The twelve months ended December 31, 1996 resulted in a deficit of \$1.024 million — \$200,000 better than budget — for an 18 month accumulated surplus of \$1.061 million. The Society created an 18 month budget as the result of the change in our fiscal year end in 1995.

Total revenues for the year exceeded budget by \$747,000 in part because the number of Society members in 1996 was higher than conservatively estimated and the Society, as a result, collected more fees and levies. Substantially lower than anticipated interest rates adversely affected income from investment sources. Planned investment income was less than budget by \$348,000.

Our goal of a reduction in program costs was reached. With the exception of the bar admission course — which recorded a small deficit of \$2,000 — all program areas achieved target with an overall budgetary expense reduction of \$317,000.

Savings in program costs minimized the over-spending in our general administration and restructuring expenses which were \$376,000 above budget. Cost efficiencies have been realized resulting from restructuring the Society. Over the 18 month period ending December 31, 1996, total annualized expenditures have been reduced by \$1.945 million.

The Lawyers Fund for Client Compensation balance at December 31, 1996, was \$24,144,000. The Fund's deficit for 1996 — \$2,373,000 — was \$618,000 less than projected. The favourable variance resulted in part from the pay out of fewer grants. Although a robust financial cushion continues to exist, we have embarked on a review of the Fund to ensure its long term financial health.

Encouraging news continues to be received from the Lawyers' Professional Indemnity Company (LPIC) which reports that substantial progress has been made in bringing down the deficit in the Errors and Omissions Insurance Fund. At December 31, 1996, the combined deficit was reduced to \$78.3 million, down by \$40.1 million from December 1995 and approximately half of what it was in 1994. The target for completely retiring the deficit is the end of 1999.

LPIC's separate annual report provides additional details of new initiatives in the insurance program.

Over the 18 month period ending December 31, 1996 total annualized expenditures have been reduced by over \$1.9 million.

Meeting our objectives

The 1996 budget was built around five clearly defined goals, aimed at making the Society more efficient, cost-effective and accountable. In each case the Society has reached its objectives:

1. We worked to integrate similar Law Society functions and continue to seek ways to achieve greater efficiencies. Some examples include:

- A single cash collection point has replaced the old system in which monies were collected at 32 different points at the Society
- Supplies are now purchased centrally taking advantage of economies of scale
- Invoicing has been centralized

2. Our auditors identified a broad range of areas in our financial organization, processes and internal controls that required immediate attention. The Society responded quickly in 1996 and the auditors have written that they “believe that the foundation for a stronger control environment is now in place.” Some of the initiatives we’ve undertaken include:

- Accounting policies and procedures have been developed and documented
- All physical assets worth in excess of \$500 have been inventoried and recorded
- A business conduct policy has been established and communicated to staff
- The billing process for members has been revamped
- More timely and meaningful financial reports have been developed

These are the underpinnings of a strong financial and reporting system. Our job of building upon this success is far from done, but we certainly are encouraged by our achievements over a short period of time and are highly confident of even greater success in the years ahead.

3. We are committed to consolidating and restructuring Law Society operations, and at the end of 1996 had evolved into a leaner, more cost conscious and efficient organization:

- The Senior Management team was realigned
- Operations were restructured in four areas of the Society’s operations (Finance, Education, Communications, Information Systems)
- A number of functions were consolidated (admissions, publishing, financial activities, information systems and libraries)
- The human resource function has been substantially upgraded and a policy secretariat established
- Regulatory functions are being streamlined, and clearly defined targets for case management are being established

4. We said we would streamline staffing requirements. In fact, in order to meet the financial objectives set by Convocation in the 1996 budget, the staff complement has been reduced by approximately 15 per cent. Despite fewer staff, efficiencies have increased due to consolidation of functions and the implementation of innovative technology.

5. Finally, we promised to provide for enhanced training and development of staff. Maintaining a highly trained workforce is a cornerstone of the Society's restructuring plans. The specific nature of training and employee development is one of the key questions we have asked our restructuring work teams to explore. The teams are currently developing plans which will examine how the Society can continuously improve its operations through enhanced staff training.

Looking ahead

In 1997 and beyond, the Law Society administration will ensure that we continue to position the Society to meet future challenges by improving and building upon the substantial strength built into our internal structures in 1996. We will continue to centralize and consolidate services in 1997 in order to become more efficient. Our commitment to find ways to further reduce costs will not diminish.

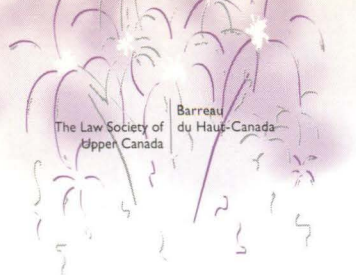
Our restructuring efforts — known as Project 200 in recognition of our bicentennial — are proceeding full steam ahead. It is expected that considerable levels of efficiency will be realized through additional enhanced work processes and the creative uses of technology. The result will be a Law Society which is increasingly efficient, cost effective and truly focused on quality service to our members and the public.

Project 200 teams — made up of employees spanning various functions throughout the Society — have been carefully scrutinizing what we do, the areas in which we excel and where opportunities exist to apply the best practices that have yielded success in organizations comparable to ours. Our immediate goal is to structure a Law Society which provides quality service to the public and to our members, and is as efficient and cost conscious as possible.

I predicted in 1995 at the beginning of my tenure as CEO that the years immediately ahead would, by necessity, be a time of significant administrative change at the Law Society. Indeed, major administrative restructuring took place in 1996, and more operational restructuring, designed to foster long term, positive results will continue in 1997.

A handwritten signature in black ink, appearing to read 'John Saso', with a stylized flourish extending from the end.

John Saso
Chief Executive Officer

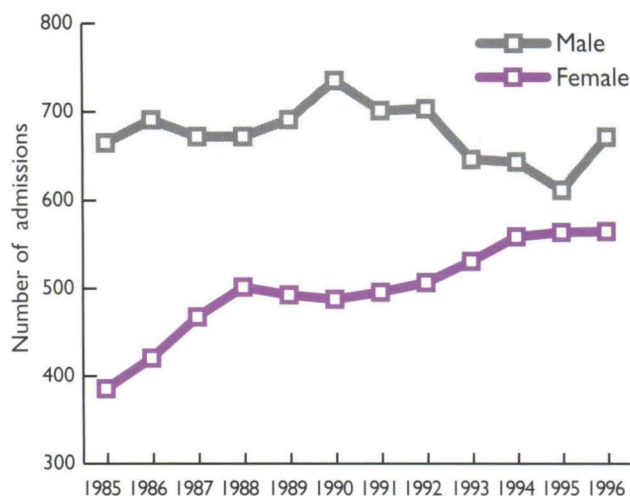


Statistics at a Glance

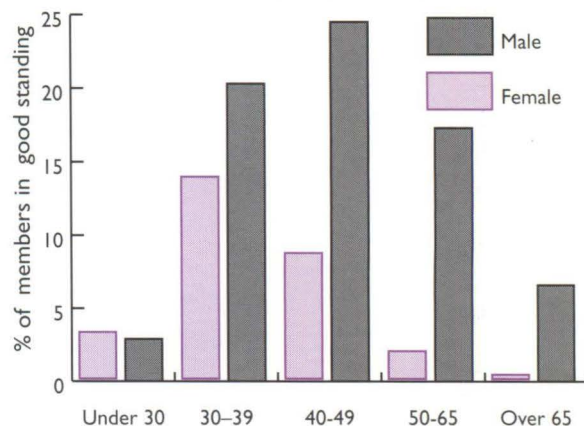
The information presented here is based on Law Society data at December 31, 1996.

Membership statistics

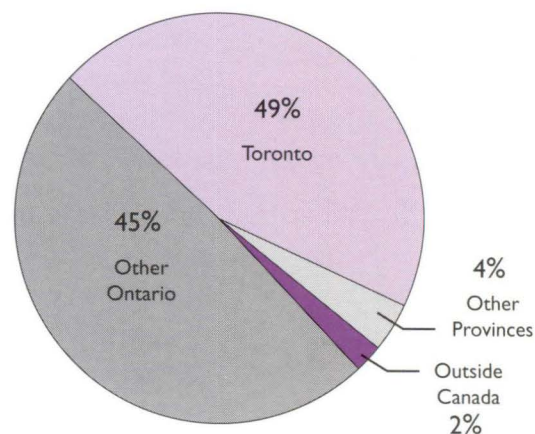
Admissions by sex (1985 – 1996)



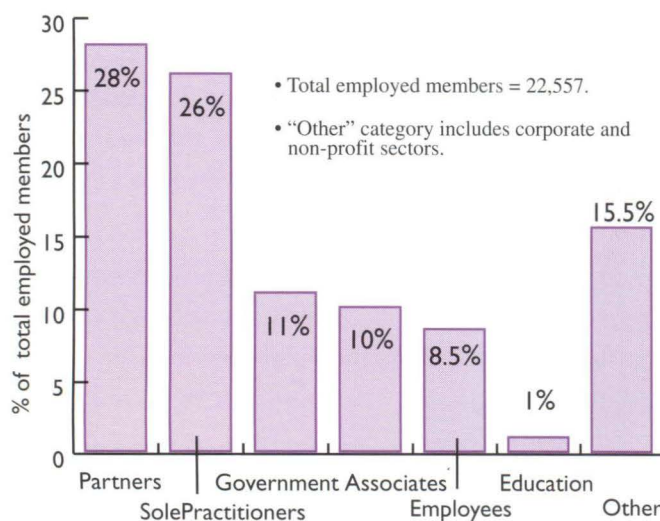
Membership by age range and sex



Geographical distribution of members



Membership by area of employment

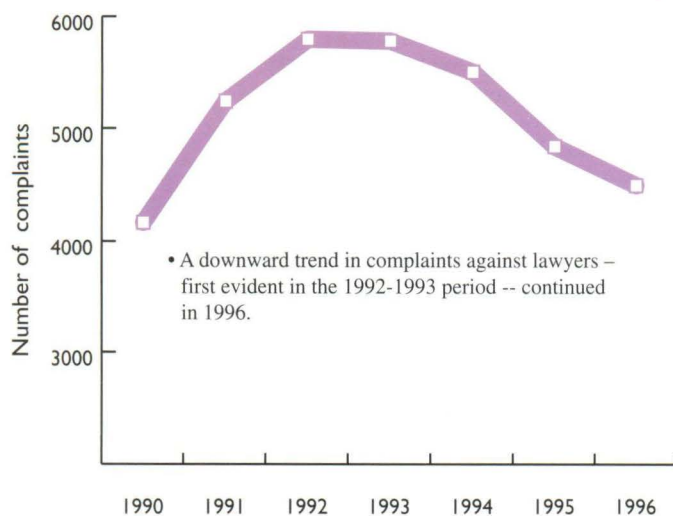


Size of Law Firm

Sole Practitioners	5,071	72.2%
2-10 lawyers	1,803	25.7%
11-25	106	1.5%
26-50	21	.3 %
51+	23	.3%

Complaints statistics

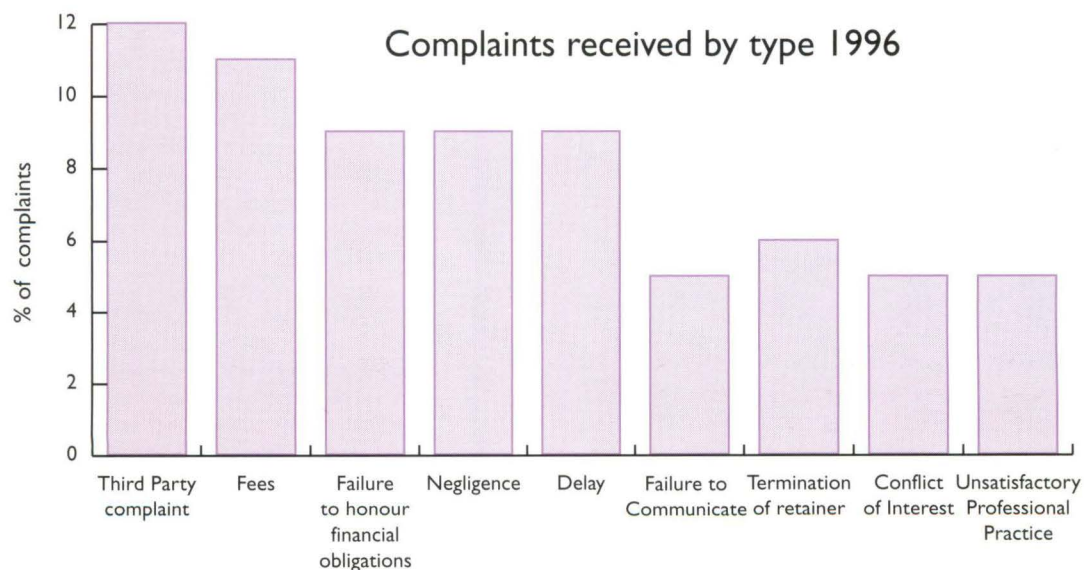
Complaints received by the Law Society



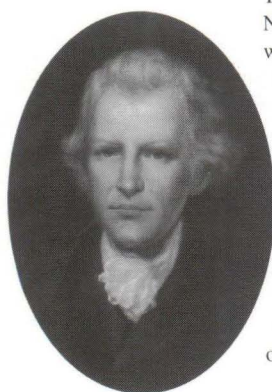
1996 Discipline

Number of lawyers:

• reprimanded in Committee:	60
• reprimanded in Convocation:	18
• suspended:	59
• disbarred:	18
• given permission to resign:	11



The 200th Anniversary of the Law Society of Upper Canada – 1797 - 1997



William Osgoode
(C.J.U.C., 1792-1794)

The Law Society of Upper Canada,
Fine Art Collection, William Osgoode
(C.J.U.C., 1792-1794), oil on canvas,
attributed to George Théodore Berthon,
127 x 81 cm, # 113.

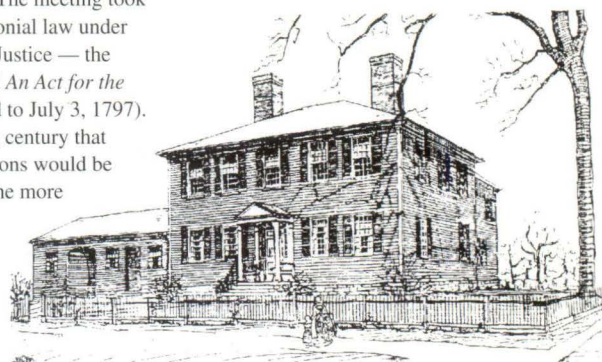
Law Society of Upper Canada founded

Ten lawyers gathered in a small hotel on July 17, 1797, in Newark (now Niagara-on-the-Lake) to establish the Law Society of Upper Canada, the world's first statutory self-governing body for lawyers. The meeting took place shortly after the Legislature repealed a 1785 colonial law under which lawyers were, in effect, licensed by the Chief Justice — the normal practice in all British colonies — and passed *An Act for the better regulating the Practice of the Law* (Assented to July 3, 1797).

It would not be until the middle of the following century that self-regulation by lawyers in other British jurisdictions would be standard. The Upper Canada development was all the more remarkable, given the lack of maturity of its legal profession. There were only fifteen lawyers in the five-year-old colony of Upper Canada and most of them lacked formal legal training.

Among the few with legal education were John White, Attorney General, and Robert Gray, Solicitor General. White was trained as a barrister in England and Gray studied law in Montreal. Both men are generally credited with creating the Law Society by sponsoring the necessary legislation and by acting as its first and second Treasurers.

This historic assembly conferred barrister-at-law degrees on all fifteen of the colony's lawyers. Besides naming White Treasurer, it elected six benchers. ♦



Wilson's Hotel

The Law Society of Upper Canada, Fine Art Collection, Wilson's Hotel,
Print commissioned for 150th anniversary of the Law Society,
Dyce C. Saunders, # 58.

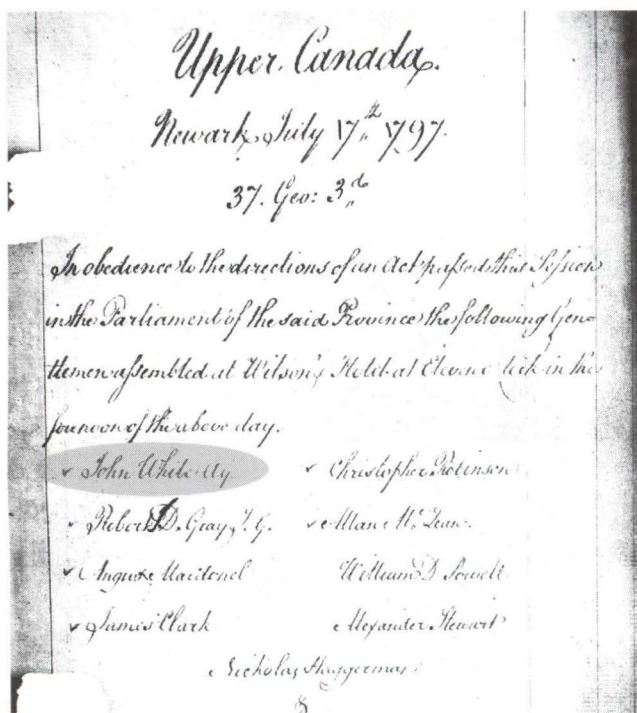
1791 Common Law adopted
in Upper Canada

1793 City of York (Toronto)
established

1797

1800

1804
The "Speedy"
sinks in Lake Ontario



Minutes of Convocation, 1797

The Law Society of Upper Canada Archives, Series 1-14, Convocation, Secretary's Minute Books, 1-14-1.

First Treasurer dies in duel

English barrister John White became the first Attorney General of Upper Canada when Chief Justice William Osgoode, at the entreaty of a mutual friend, arranged his appointment. White later became the first Treasurer of the Law Society of Upper Canada, an honour ensuing directly from his position as chief legal officer. Neither his ability nor his character justified these honours, and an ignominious death awaited him.

White was unsuccessful as a barrister in England, and while he enjoyed the support of both Osgoode and Lieutenant-Governor John Graves Simcoe, he was considered incompetent by some. White gets credit for helping to create the Law Society, but as Treasurer he called no meetings, putting the fledgling Society at risk of extinction. It was Robert Gray who rescued it when he became Treasurer.

Upon his arrival in Upper Canada White lived with John Small, Clerk of the Executive Council, and Small's wife, Elizabeth. But by 1799 Small and White had fallen out of sorts and White accused Mrs. Small, with whom he had had a flirtation, of once being a kept woman of an English nobleman who, having lost interest in her, paid Small to marry her. The offended Mr. Small challenged White to a duel and the Society's first Treasurer was shot on January 3, 1800. He died two days later, not yet 40. ♦

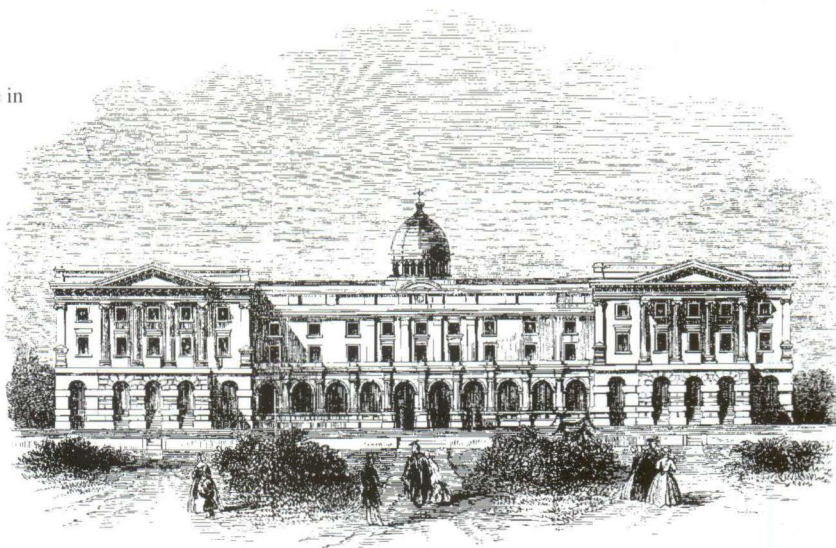
Construction of Osgoode Hall begins

The idea for Osgoode Hall began to take firm shape in May 1828 when the Law Society of Upper Canada purchased six acres for £1,000 on a site just beyond York's northern boundary, along what was to become Toronto's Queen Street. The following month benchers approved £3,000 for a building on the site.

The origins of the project can be traced to 1815 when benchers began talking about the need for permanent headquarters. In 1820 the Law Society began to plan a building it intended to call Osgoode Hall. (William Osgoode — who died in 1824 — was living in retirement in England at the time.) Lack of incorporation hindered the Society's plans because it prevented the Society from owning property. Incorporation was to come in 1822 and benchers began the search for land on which to build Society offices, a library and a law school.

Benchers acted only days after Archdeacon John Strachan petitioned the Lieutenant-Governor to charter Upper Canada's first university, at which he wanted to teach law. Plans for Osgoode Hall signaled the Law Society's unwillingness to relinquish legal education to the proposed university or to any other "outsiders."

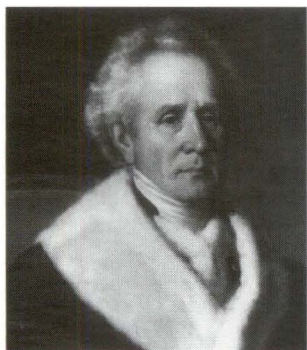
Construction of Osgoode Hall began in the summer of 1829 and the original building, now the east wing, opened in 1832. ♦



Osgoode Hall

The Law Society of Upper Canada Archives, Manuscript Collection, M35, Gleason's Pictorial Drawing Room Companion, 1852, 44.

1812 1815 Sir John A. Macdonald born 1822 Law Society incorporated 1828 1867 Confederation 1875 Supreme Court of Canada established 1886



Sir John Beverley Robinson,
(C.J.U.C., 1829 - 1862)

The Law Society of Upper Canada, Fine Art Collection, Sir John Beverley Robinson, (C.J.U.C., 1829 - 1862), oil on canvas, George Theodore Berthon, 274 x 137 cm, 1846, # 265.

John Macdonnell who, with the rank of lieutenant colonel, served as aide-de-camp to Major General Isaac Brock, Upper Canada's top civil and military authority at the time.

Brock's brilliant repulse of the invading American forces and his capture of Detroit made him the hero of Upper Canada and the British Empire. Soon after, his troops stopped an American invasion attempt at Queenston Heights, but Brock was killed while leading the charge. Minutes later Macdonnell also died in the same battle.

A participant at both battles was Lieutenant John Beverley Robinson who, although only 20 and still a law student, succeeded Macdonnell as acting Attorney General. He would go on to be the Law Society Treasurer and also serve 33 years as Chief Justice. ♦

Lawyers defend Canada in War of 1812

Within the small law fraternity in the inchoate colony of Upper Canada, the War of 1812 between Great Britain and the United States evoked immense patriotism and sacrifice. Almost every fit member of the Society — benchers, barrister and student — went into active service and with militia training mandatory in the colony, all were ready to serve. As a result, the Society went into virtually abeyance for the duration of the war.

The legal profession's most celebrated casualty in the war was acting Attorney General

First black called to bar

For Robert Sutherland, becoming Ontario's first black lawyer was surprisingly easy. He came from Jamaica in 1849 to study at Queen's University, graduating three years later with double honours. After passing the Law Society's entrance examination and articling, Sutherland was called to the bar in 1855 and set up practice in Bruce County.

Sutherland's experience did not by any means establish a precedent. Delos Rogest Davis, an American-born black who grew up in Ontario, encountered a less-receptive legal establishment a generation later. He studied law while teaching school and in 1873 became a notary, but could not obtain an articling position. In frustration he petitioned the provincial legislature claiming prejudice, and a bill was passed which allowed him to write the Law Society's examination and became a solicitor.

When Davis petitioned the Legislature again the following year to be made a barrister, the Law Society of Upper Canada responded irritably that neither petition was necessary — if the Society had been aware of Davis's articling problems they would have been addressed, and that if Davis wanted to become a barrister he need only write the necessary examination.

However, the second bill was passed. Davis wrote the bar exam, was called to the bar in 1886, and lived his days as a successful lawyer in southwestern Ontario. ♦



Rogest Delos Davis

Photo courtesy of the Black History Society

First woman lawyer admitted

Nineteen ninety-seven marks 100 years since Clara Brett Martin was called to the Ontario bar, making her the first woman in the British Empire to embark on a legal career.

For Martin the process of becoming a lawyer was an ordeal. Besides the usual patriarchal discrimination of the day, she faced a constitutional obstacle. Her application to the Law Society of Upper Canada was refused because the Law Society Act contained admission criteria for "persons," and, at the time, a woman was not, according to law, a "person." It was not until 1929 that the Privy Council would grant women that distinction.

The University of Toronto graduate therefore had no recourse to the courts; she instead mustered political support for her cause and it led to the passing, by a close vote, of legislation permitting the Law Society to admit a woman as a solicitor, but not as a barrister. It was enough and Martin continued on the journey of become the Empire's first female lawyer.

After a divisive debate in 1892, benchers voted twelve to eleven to allow Martin to become a law student. Further action by the legislature enabled her to become a barrister and the Law Society called Clara Brett Martin to the bar on February 2, 1897. ♦



AT LAST.

"It's a girl!"

"Its a girl!"

Toronto Star, February 3, 1897.

1897

1908 Royal Mint opens
1912 The Titanic sinks

1914

1918 Billy Bishop shoots down
5 enemy planes in 15 minutes
1929 The Great Depression begins
1934 Dionne quintuplets born



For God and country — 1914-18 and 1939-45

With the outbreak of the First World War, the Law Society responded with the same loyalty to the British Empire it had manifested when the empire was challenged in the War of 1812. Although militia training was no longer obligatory, it remained popular in Upper Canada, especially among young men of the upper classes. When war broke out not only were many lawyers ready to fight, but they saw to it that both the Law Society and Osgoode Hall took on a military role.

The Osgoode Hall Rifle Association was formed, with arms and ammunition supplied by the Society, to train lawyers and students who lacked militia training. Osgoode Hall's grounds were used for shooting practice and Convocation Hall for military lectures, and students were

credited one year's law school for war service. More than one hundred lawyers and students died in the conflict.

When the Second World War broke out an Osgoode Hall contingent of the Canadian Officer Training Corps was established and parts of the building were again converted to military use. ♦



**Osgoode Hall Law School
Faculty, 1949**

*The Law Society of Upper Canada Archives,
Photograph Collection, P41.*

Osgoode Hall law faculty resigns

From its inception, a part of the Law Society's *raison d'être* has been the tutelage of future lawyers, and for much of its history it has favoured practical training over theoretical instruction.

One of the reasons for the construction of Osgoode Hall in 1832 was to check Archdeacon Strachan's designs on legal education for his university. But there would not be an official law school at Osgoode Hall until 1889, and then lectures would fill only two hours a day.

The conflict between theory and practice exploded early in 1949 when Osgoode Hall Dean Cecil Wright and faculty members Bora Laskin, Stanley Edwards and John Willis resigned to protest the Law Society's continuing intransigence on this issue. The resulting

pressure from the public and the legal profession convinced the Law Society to move quickly to require more academic training. That fall, policy on legal education was implemented requiring two years of full-time study, one year of articling and one year combined study and articling.

In 1957 an agreement between the Law Society and several universities finally allowed universities to establish law schools with the current syllabus of three years of university, one year of articling and a bar admission course.

A little more than a decade later the academic component of Osgoode Hall became part of the new York University, one of six Ontario universities with law schools. ♦

1949

1960 Bill of Rights Passed

1969 Osgoode Hall Law School
moves to York U.

1974 First lay Benchers appointed

1991

1996 Convocation adopts
policy governance

1997 LSUC Bicentennial Celebrations

Prince of Wales received at Osgoode Hall

The Osgoode Hall completed in 1832 is now the building's eastern wing. There was an addition two years later, and in the 1840s a west wing and domed centre block, including a library, were added. In the following decade the centre block was rebuilt in grander style.

It was the exterior of this newly renovated building, outlined with burning gas jets, that greeted the Prince of Wales when he arrived for its official opening on the evening of September 8, 1860. After a reception by lawyers and judges, the guest of honor was installed as an honorary bencher, and spent the rest of the evening dancing.

He was the first of several Royal heirs to honour the Law Society with visits. In 1919, the Prince of Wales, the future Edward VIII and grandson of the other Edward, visited Osgoode Hall to pay tribute

to the lawyers and law students who had fought in the Great War. He too was made an honorary bencher. The current Prince of Wales was a guest of Osgoode Hall in 1991 when he was bestowed the title of honorary bencher. His sister, the Princess Royal had received the title when she visited in 1962.

Queen Elizabeth officially reopened a renovated Osgoode Hall in 1973. ♦



Installation of the Prince of Wales as Honorary Bencher, 1991

Financial Statements

	Pages
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Auditors' Report, Financial Statements and Notes	
• Lawyers Fund for Client Compensation	23 – 27
Auditors' Report, Financial Statements and Notes	
• Errors and Omissions Insurance Fund	28 – 37
Auditors' Report, Actuary's Report, Financial Statements and Notes	

Auditors' Report

To the Members of The Law Society of Upper Canada

We have audited the balance sheet of The Law Society of Upper Canada - General Fund as at December 31, 1996 and the statements of revenues and expenses, fund balance and changes in financial position for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Toronto, Ontario
March 25, 1997

GENERAL FUND

Balance Sheet

Stated in thousands of dollars

As at December 31	1996 \$	1995 \$
		[note 11]
ASSETS		
Cash and short term investments	3,819	10,686
Accounts receivable	2,824	10,904
Due from Lawyers Fund for Client Compensation	222	74
Due from Errors and Omissions Insurance Fund	—	263
Inventory	182	199
Prepaid expenses and deferred charges	334	637
Fixed assets [note 3]	18,917	19,294
Total Assets	26,298	42,057
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities	4,575	4,100
Due to Legal Aid Plan	3,000	—
Deferred Lawyers' Professional Indemnity Company Capitalization levy [note 6]	—	3,926
Deferred revenue	1,730	16,097
Levy waiver fund	126	43
Total liabilities	9,431	24,166
FUND BALANCE		
General operations	14,513	15,732
Legal Aid [note 5]	2,354	2,159
Total Fund Balance	16,867	17,891
Total Liabilities and Fund Balance	26,298	42,057

See accompanying notes

On Behalf of Convocation

Treasurer

Chair of Finance and Audit Committee

GENERAL FUND

Statement of Revenues and Expenses

Stated in thousands of dollars

	Year Ended December 31, 1996		Six Months Ended December 31,
	Actual \$	Budget \$	1995 \$
		[unaudited]	[note 11]
REVENUES			
Membership fees [note 4]	18,568	18,153	10,427
Lawyers' Professional Indemnity Company Capitalization levy [note 6]	11,141	10,653	9,500
Legal Aid levy [note 5]	6,195	6,000	3,079
Bar admission course revenues	5,707	5,434	3,627
County library fees	2,487	2,625	1,343
Continuing legal education	1,566	1,637	485
Library revenues	1,697	1,719	781
Catering revenues	388	467	180
Investment income	374	722	508
Search law	303	315	141
Lawyer referral service	287	328	19
Rental and event revenue	189	75	42
Miscellaneous	237	264	94
Total revenues	49,139	48,392	30,226
PROGRAM EXPENSES			
Secretariat	9,132	9,145	4,480
Information management	4,866	5,033	2,577
Legal Aid assessable administration [note 5]	6,000	6,000	3,000
Bar admission course expenses	5,709	5,434	3,526
Finance and administration	4,229	4,244	2,052
County library levy grants	2,487	2,625	—
Continuing legal education	1,559	1,601	698
Communications	1,625	1,762	629
Human resources	272	280	98
Admissions and certification	215	287	131
Total program expenses	36,094	36,411	17,191
OTHER EXPENSES			
Amount invested in and remitted to Lawyers' Professional Indemnity Company [note 6]	11,141	10,653	9,500
General administration and restructuring expenses	2,928	2,552	1,450
Total other expenses	14,069	13,205	10,950
Total expenses	50,163	49,616	28,141
NET (DEFICIT) SURPLUS FOR THE PERIOD	(1,024)	(1,224)	2,085
Net (deficit) surplus for the period comprised of:			
General operations	(1,219)	(1,224)	2,006
Legal Aid [note 5]	195	—	79

See accompanying notes

GENERAL FUND

Statement of Fund Balance

Stated in thousands of dollars

	Year Ended December 31, 1996			Six Months Ended December 31,
	General Operations \$	Legal Aid [note 5] \$	Total \$	1995 [note 11] \$
Fund Balance, beginning of period	15,732	2,159	17,891	15,806
Net (deficit) surplus for the period	(1,219)	195	(1,024)	2,085
Fund Balance, end of period	14,513	2,354	16,867	17,891

See accompanying notes

GENERAL FUND

Statement of Changes in Financial Position

Stated in thousands of dollars

	Year Ended December 31, 1996 \$	Six Months Ended December 31, 1995 \$
		[note 11]
OPERATING ACTIVITIES		
Net (deficit) surplus for the period	(1,024)	2,085
Lawyers' Professional Indemnity Company		
Capitalization levy	11,141	9,500
Item not affecting cash:		
Depreciation	1,384	611
Other operating sources (uses) of cash:		
Accounts receivable	8,080	(5,896)
Due from Lawyers Fund for Client Compensation	(148)	372
Due from Errors and Omissions Insurance Fund	263	(659)
Inventory	17	(17)
Prepaid expenses and deferred charges	303	(572)
Accounts payable and accrued liabilities	475	(1,650)
Due to Legal Aid Plan	3,000	—
Levy waiver fund	83	43
Deferred Lawyers' Professional Indemnity Company		
Capitalization levy	(3,926)	3,926
Deferred revenue	(14,367)	13,145
Total operating activities	5,281	20,888
INVESTING ACTIVITIES		
Investment in Lawyers' Professional Indemnity Company [note 6]	(11,141)	(9,500)
Fixed asset additions	(1,007)	(1,145)
Total investing activities	(12,148)	(10,645)
Net (decrease) increase in cash position during the period	(6,867)	10,243
Cash position, beginning of period	10,686	443
Cash position, end of period	3,819	10,686
Cash position represented by		
Cash and short term investments	3,819	10,686

See accompanying notes

Notes to Financial Statements

*For the year ended December 31, 1996**(Stated in whole dollars except where indicated)*

1. Description of Fund

The General Fund comprises the assets, liabilities, fund balance, revenues and expenses of the various operations of the Law Society of Upper Canada (the "Society"), other than those designated to the Lawyers Fund for Client Compensation and the Errors and Omissions Insurance Fund. Separate financial statements have been prepared for those funds.

The Society is empowered to administer the Legal Aid Plan and to maintain the Legal Aid Fund in accordance with the *Legal Aid Act*. The extent of the Society's responsibility for funding the activities of the Legal Aid Plan is set out in note 5 to these financial statements. The Society reports annually to the Attorney General of Ontario on the accounts and financial transactions of the Legal Aid Fund. The financial statements of the Legal Aid Fund are subject to audit by the Provincial Auditor, and are not included in these financial statements.

2. Significant Accounting Policies

Cash and short term investments

Cash and short-term investments are amounts on deposit and invested in short-term (less than one year) investment vehicles according to the Society's investment policy. Short term investments are stated at the lower of cost and market value.

Inventory

Inventory is valued at the lower of cost and net realizable value.

Fixed assets

Land, buildings, furnishings and major alterations are presented at cost net of accumulated depreciation and grants. Depreciation is charged to expense on a straight-line basis over the estimated useful lives of the assets commencing in the year following acquisition as follows:

Buildings and leasehold improvements	3 to 30 years
Furniture and equipment	3 to 5 years

Minor capital expenditures are expensed in the year of acquisition.

Deferred revenue

Deferred revenue relates to funds received for specific future programmes.

Volunteer services

The work of the Society is dependent on the voluntary services of the elected Benchers and other members of the profession. These services are received gratuitously, therefore, no value has been included in these financial statements.

3. Fixed Assets

	As at December 31, 1996			December 31, 1995
	Cost \$000's	Accumulated Depreciation \$000's	Net \$000's	Net \$000's
Land, buildings, and leasehold improvements	29,806	12,627	17,179	17,865
Furniture and equipment	4,106	2,368	1,738	1,429
	33,912	14,995	18,917	19,294

4. Membership Fees and Levies

The membership fee and levies comprise six components, being the general membership fee, county library levy, Legal Aid levy, Errors and Omissions Levy Waiver Fund, Lawyers Fund for Client Compensation levy and Lawyers' Professional Indemnity Company Capitalization levy. Membership fees and levies are recorded when billed, less a provision for doubtful accounts, and earned equally throughout the year. The Errors and Omissions Levy Waiver Fund is collected and accumulated in a special purpose fund and reported on the Balance Sheet under the Liabilities and Fund Balance section. The amounts collected on behalf of the Lawyers Fund for Client Compensation are treated as flow through amounts, having no impact on the General Fund.

The General Fund recovers certain costs from the Lawyers Fund for Client Compensation in relation to administration expenses incurred on their behalf. These recoveries are treated as offsetting administration expenses of the General Fund. The total amount recovered during the year was \$1,023,000 (six months ended December 31, 1995 - \$508,200)

5. Legal Aid Levy

Pursuant to section 26 of the Legal Aid Act, the Society shall contribute to the Legal Aid Fund such a percentage of the total assessable administrative expenses as is set out in the Regulation, currently set at 50%. The 50% contribution required by the Regulation may itself be reduced by up to 50% by the application of funds arising from the reduction of fees payable to solicitors in accordance with the regulation.

In order to fund this contribution to the Legal Aid Fund, the Society assesses its members a levy based upon projections received from the Legal Aid Fund. Any excess amounts collected are set aside for future use in reducing Legal Aid levies to the members in accordance with the Regulation pursuant to the Legal Aid Act.

6. Lawyers' Professional Indemnity Company Capitalization

In October 1994, Convocation approved the Report to Convocation of the Insurance Task Force and the Insurance Committee. As part of that report, it was approved that a portion of the general membership fee (\$600 per member annually) would be collected to provide for capital in the Lawyers' Professional Indemnity Company over a four year period. The amount to be collected is \$50,000,000. The total amount billed to members and invested in and paid to Lawyers' Professional Indemnity Company for the year ended December 31, 1996 is \$11,141,000 (six months ended December 31, 1995 - \$9,500,000), bringing the total invested to \$20,641,000 as at December 31, 1996. (December 31, 1995 - \$9,500,000)

7. Endowment Funds

The Society administers endowment funds in the amount of \$461,000 (December 31, 1995 - \$468,000). At the end of the year, the funds consisted of investments of which \$240,000 (December 31, 1995 - \$240,000) was capital and the balance of \$221,000 (December 31, 1995 - \$228,000) was unexpended cumulative income. In accordance with the terms of the endowments, the Society awards prizes, bursaries and gifts. During the year, \$23,350 (six months ended December 31, 1995 - \$30,000) was paid in respect of these awards.

8. Pension Plan

The Society maintains a defined contribution plan for all eligible employees. The plan covers employees of the Society, the Lawyers Fund for Client Compensation, the Legal Aid Plan, and the Lawyers' Professional Indemnity Company. The Society matches its employees' contributions to the plan.

The Society's pension expense [excluding the Lawyers Fund for Client Compensation, Legal Aid and the Lawyers' Professional Indemnity Company] for the year ended December 31, 1996 amounted to \$501,890 (six months ended December 31, 1995 - \$284,447).

9. Commitments

Operating leases

The Society is committed to monthly lease payments for property and computer facilities under leases having various terms up to August 2002. Aggregate monthly lease payments for the applicable future years are as follows:

Year	\$000's
1997	309
1998	318
1999	327
2000	335
2001 and thereafter	360
Total	1,649

10. Contingent Liabilities

At December 31, 1996, there were three claims against the Society that have arisen as the result of an alleged copyright infringement. At this point in time, the amount of monetary relief claimed is not specified and is not presently ascertainable. It is not possible, therefore, to make any realistic assessment of the possible extent of the exposure of the Society to liability for damages or other monetary relief.

11. Comparative Financial Statements

In 1995, the Society changed its year end from June 30th to December 31st. The comparative figures presented on the Statement of Revenues and Expenses comprise the unaudited 1996 budgeted amounts as approved by Convocation on February 23, 1996 and the actual amounts for the six months ended December 31, 1995. The comparative amounts on the Statement of Changes in Financial Position are the actual amounts for the six months ended December 31, 1995.

Certain amounts in the comparative financial statements have been reclassified to conform to the presentation in the December 31, 1996 financial statements.

Auditors' Report

To the Members of The Law Society of Upper Canada

We have audited the balance sheet of The Law Society of Upper Canada - Lawyers Fund for Client Compensation as at December 31, 1996 and the statements of revenues and expenses, fund balance and changes in financial position for the year then ended. These financial statements are the responsibility of the Society's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Toronto, Ontario
March 25, 1997

Balance Sheet

Stated in thousands of dollars

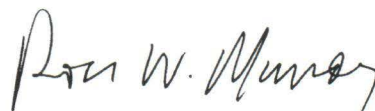
As at December 31	1996 \$	1995 \$
		[note 4]
ASSETS		
Cash and short term investments	4,793	5,116
Interest and other receivables	522	647
Portfolio investments, at amortized cost [market value - \$20,708; 1995 - \$21,949]	19,375	20,830
Fixed assets	49	79
Total Assets	24,739	26,672
LIABILITIES AND FUND BALANCE		
Accounts payable and accrued liabilities	373	81
Due to the Law Society of Upper Canada – General Fund	222	74
Total liabilities	595	155
FUND BALANCE [note 3]	24,144	26,517
Total Liabilities and Fund Balance	24,739	26,672

See accompanying notes

On Behalf of Convocation



Treasurer



Chair of Finance and Audit Committee

Statement of Revenues and Expenses and Fund Balance

Stated in thousands of dollars

	Year Ended December 31, 1996		Six Months Ended December 31,
	Actual \$	Budget \$	1995 \$
		[unaudited]	[note 4]
REVENUES			
Investment income	1,936	2,000	1,206
Annual levy	26	24	12
Total revenues	1,962	2,024	1,218
EXPENSES			
Grants paid	3,260	3,500	669
Less: recoveries	(412)	(200)	(139)
Net grants paid	2,848	3,300	530
Administrative	1,053	1,116	549
Counsel fees	38	160	46
Referees and reporters fees	36	57	2
Salaries and benefits	317	370	166
Furniture and equipment	5	4	6
Depreciation	36	7	3
Reports and sundries	2	1	—
Total expenses	4,335	5,015	1,302
Deficit for the period	(2,373)	(2,991)	(84)
Fund balance, beginning of period	26,517	26,517	26,601
Fund balance, end of period	24,144	23,526	26,517

See accompanying notes

Statement of Changes in Financial Position

Stated in thousands of dollars

	Year Ended December 31, 1996 \$	Six Months Ended December 31, 1995 \$
		[note 4]
OPERATING ACTIVITIES		
Deficit for the period	(2,373)	(84)
Item not affecting cash:		
Depreciation	36	3
Other operating sources (uses) of cash:		
Accounts receivable	125	(169)
Accounts payable and accrued liabilities	292	(63)
Due to the Law Society of Upper Canada – General Fund	148	(372)
Total operating activities	(1,772)	(685)
INVESTING ACTIVITIES		
Fixed asset additions	(6)	(16)
FINANCING ACTIVITIES		
Portfolio investments	1,455	1,033
Net decrease in cash and short term investments during the period	(323)	332
Cash and short term investments, beginning of period	5,116	4,784
Cash and short term investments, end of period	4,793	5,116

See accompanying notes

Notes to Financial Statements

For the year ended December 31, 1996

1. Description of Fund

The Lawyers Fund for Client Compensation is maintained by The Law Society of Upper Canada pursuant to section 51 of the Law Society Act to relieve or mitigate loss sustained by any person in consequence of dishonesty on the part of any member in connection with such member's law practice or in connection with any trust of which the member was or is a trustee. The fund is financed by members' annual assessments.

Administrative expenses include an amount of \$1,023,000 remitted to the Law Society of Upper Canada General Fund.

2. Significant Accounting Policies

Cash and short term investments

Cash and short term investments are amounts on deposit and invested in short term (less than one year) investment vehicles according to the Society's investment policy. Short term investments are stated at the lower of cost and market value.

Long term investments

Portfolio investments are recorded at cost, net of amortization of premiums and discounts. Investments consist of government and corporate bonds.

Fixed assets

Furnishings and major alterations are presented at cost net of accumulated depreciation and grants. Depreciation is charged to expense on a straight-line basis over the estimated useful lives of the assets as follows:

Furniture and equipment	3 to 5 years
-------------------------	--------------

Minor capital expenditures are expensed in the year of acquisition.

Grants

Pursuant to section 51(5) of the Law Society Act, the payment of grants from the Lawyers Fund for Client Compensation is at the discretion of Convocation. No provision has been made in these financial statements for grants not approved by Convocation.

3. Grant applications

At year end, the total value of reported outstanding grant applications was approximately \$25,046,000 [December 31, 1995 - \$24,354,000]. Strict application of the limits currently approved by Convocation to existing grant applications indicates that the maximum grants under the programme would aggregate \$11,812,000 [December 31, 1995 - \$11,712,000].

4. Comparative Financial Statements

In 1995, the Lawyers Fund for Client Compensation changed its year end from June 30th to December 31st. The comparative figures presented on the Statement of Revenues and Expenses and Fund Balance comprise the unaudited 1996 budgeted amounts as approved by Convocation on February 23, 1996 and the actual amounts for the six months ended December 31, 1995. The comparative amounts on the Statement of Changes in Financial Position are the actual amounts for the six months ended December 31, 1995.

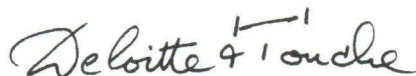
Auditors' Report

To the Members of The Law Society of Upper Canada

We have audited the combined balance sheet of The Law Society of Upper Canada - Errors and Omissions Insurance Fund as at December 31, 1996 and the combined statements of revenue and expenses and balance of deficit, and of changes in financial position for the year then ended. These financial statements are the responsibility of the Fund's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Fund as at December 31, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.



Chartered Accountants

Toronto, Canada

March 25, 1997

Actuary's Report

for Combined Financial Statements at 31 December 1996

Role of the Valuation Actuary

The valuation actuary is appointed by the Audit Committee of the Lawyers' Professional Indemnity Company in their capacity as managers of the Law Society of Upper Canada Errors and Omissions Insurance Fund. With respect to the preparation of these combined financial statements, the actuary is required to carry out a valuation of the claims liabilities and to report thereon to the Audit Committee, and through them to the membership of the Law Society. The valuation is carried out in accordance with accepted actuarial practice, except as specifically disclosed to the contrary, and regulatory requirements. The scope of the valuation encompasses the claims liabilities, that is the provision for unpaid claims and adjustment expenses on claims incurred and reported prior to 31 December 1996, the date of these combined financial statements.

In performing the valuation of the liabilities for these future events, which are by their very nature inherently variable, the actuary makes assumptions as to future rates of claims severity, inflation, reinsurance recoveries, expenses and other matters, taking into consideration the circumstances of the Errors and Omissions Insurance Fund, the Lawyers' Professional Indemnity Company and the nature of the insurance coverage being offered. The valuation is necessarily based on estimates, consequently, the final values may vary significantly from those estimates. The actuary also makes use of management information provided by the Law Society and the Lawyers' Professional Indemnity Company, and uses the work of the auditor with respect to the verification of the underlying data used in the valuation.


Valuation Actuary's Report

I have valued the claims liabilities arising on the errors and omissions insurance coverage arranged by the Law Society of Upper Canada for its Errors and Omissions Insurance Fund combined balance sheet as at 31 December 1996, and their changes in its combined statement of revenue and expenses and balance of deficit for the year then ended, in accordance with accepted actuarial practice, except as described in the following paragraph.

In accepted actuarial practice, it is the actuary's responsibility to assess the recoverability of claims under reinsurance contracts. As referenced in Note 4 to the combined financial statements, the claims data provided for this valuation may not be consistent with the ultimate resolution of ongoing discussions with regard to coverage for the period 1 July 1982 to 30 June 1989 between the Law Society of Upper Canada and American Home Assurance Company, the insurer above the policy deductible throughout this period. With the express understanding of the management and Audit Committee of the Lawyers' Professional Indemnity Company and the external auditor, this valuation uses the historical data as provided, without any explicit provision or adjustment for this potential issue.

In my opinion, the valuation is appropriate, except as noted in the previous paragraph, and the financial statements fairly present its results.

Don Mills, Ontario
March 25, 1997



Brian G. Pelly
Fellow, Canadian Institute of Actuaries

ERRORS AND OMISSIONS INSURANCE FUND

Combined Balance Sheet

Stated in thousands of dollars

As at December 31	1996 \$	1995 \$
ASSETS		
Investments (market value \$113,971; 1995 - \$106,429) [note 6]	110,526	104,664
Cash and short-term investments	21,223	4,835
Investment income due and accrued	1,782	1,651
Accounts receivable	4,213	8,276
Fixed and other assets	1,808	1,680
Deferred tax	4,798	2,881
Reinsurers' share of provision for unpaid claims and adjustment expenses [note 8]	118,121	100,127
Total assets	262,471	224,114
LIABILITIES AND BALANCE OF DEFICIT		
Provision for unpaid claims and adjustment expenses [notes 4 and 8]	325,194	324,351
Accounts payable and accrued liabilities	11,846	15,783
Due to General Fund	—	263
Income taxes	3,714	2,068
Balance of deficit [notes 3 and 7]	(78,283)	(118,351)
Total liabilities and balance of deficit	262,471	224,114

See accompanying notes

On behalf of the Convocation:

Susan Elliott

Treasurer

Don W. Murray

Chair of Finance and Audit Committee

Combined Statement of Revenue and Expenses and Balance of Deficit

Stated in thousands of dollars

	Year Ended December 31, 1996 \$	Six Months Ended December 31, 1995 \$
		[note 12]
REVENUE		
Members' levies [note 9]	112,244	57,916
Reinsurance commissions	6,556	3,728
Investment income	8,722	5,064
Other revenue	1,862	1,041
Total revenue	129,384	67,749
EXPENSES		
Net claims and adjustment expenses [notes 4 and 8]	42,948	38,305
Reinsurance premiums	43,982	27,381
General expenses	5,953	2,503
Premium taxes	2,602	1,455
Provision for income taxes	4,972	858
Total expenses	100,457	70,502
Excess/(deficiency) of revenue over expenses	28,927	(2,753)
Balance of deficit, beginning of period	(118,351)	(125,098)
Capital contributed by General Fund	11,141	9,500
Balance of deficit, end of period [notes 3, 7 and 8]	(78,283)	(118,351)

See accompanying notes

Combined Statement of Changes in Financial Position

Stated in thousands of dollars

	Year Ended December 31, 1996 \$	Six Months Ended December 31, 1995 \$
		[note 12]
OPERATING ACTIVITIES		
Excess/(deficiency) of revenue over expenses	28,927	(2,753)
Add items not affecting cash:		
Deferred taxes	(1,917)	(2,881)
Depreciation and amortization	525	680
	27,535	(4,954)
Other operating sources (uses) of cash:		
Provision for unpaid claims and adjustment expenses	843	108,603
Income taxes	1,646	1,643
Accounts receivable	4,063	(1,762)
Recoverable from reinsurer	(17,994)	(100,127)
Due to/from the General Fund	(263)	659
Accounts payable and accrued liabilities	(3,937)	309
Investment income due and accrued	(131)	(725)
Other assets	(49)	821
Total funds provided by operating activities	11,713	4,467
FINANCING ACTIVITIES		
Purchases of investments, net	(5,862)	(53,241)
Capital contributed by General Fund	11,141	9,500
INVESTING ACTIVITIES		
Additions to fixed assets, net	(604)	(1,162)
Net change in cash and short-term investments	16,388	(40,436)
Cash and short-term investments, beginning of period	4,835	45,271
Cash and short-term investments, end of period	21,223	4,835

See accompanying notes

Notes to Combined Financial Statements

For the year ended December 31, 1996

1. The Insurance Program and its Risk Retention and Reinsurance Structure

The combined financial statements of the Errors and Omissions Insurance Fund account for the net results of the Society's professional liability insurance program. The program requires practicing members to pay annual levies to fund the anticipated costs of professional liability claims made in each annual policy period. Indemnification of members is subject to the terms of the insurance policy, including financial limits per claim and aggregate limits per member in each policy period.

These financial statements combine the results of operations and the financial positions of:

- the Errors and Omissions Insurance Fund of the Society, the fund originally set up in the Society's accounts to record insurance claims and expenses and related levies and their investment; and
- Lawyers' Professional Indemnity Company ("LPIC"), a wholly owned subsidiary of the Society that was incorporated in 1990 and licensed as an insurer in Ontario and Newfoundland.

The risk retention and reinsurance structures employed through these two entities are described in the following paragraphs.

Prior to July 1, 1990, the Society's Errors and Omissions Insurance Program was underwritten by various insurance carriers subject to a policy deductible. LPIC took over the underwriting of the program commencing July 1, 1990. The Society maintained financial responsibility for the policy deductible through to December 31, 1994. The policy deductible was a combination of a group deductible and the individual member deductible. For the periods noted below, the combined policy deductibles were as follows:

July 1982 to June 1986	\$ 100,000 per occurrence
July 1986 to June 1988	\$ 150,000 per occurrence
July 1988 to June 1990	\$ 250,000 per occurrence
July 1990 to December 1991	\$ 200,000 per occurrence
January 1992 to December 1994	\$ 250,000 per occurrence

The Society arranged Stop Loss reinsurance that limited the aggregate exposure to group deductibles. The Stop Loss limits were as follows:

July 1982 to June 1983	\$ 8,605,894
July 1983 to June 1984	\$ 8,903,588
July 1984 to June 1985	\$10,000,000
July 1985 to June 1986	\$12,250,000
July 1986 to June 1987	\$20,000,000
July 1987 to June 1988	\$22,000,000
July 1988 to June 1989	\$27,000,000

The Society was not able to arrange Stop Loss reinsurance on its group deductible after the policy period ending June 1989. As a result, the full financial risk of the deductible rested with the Society, from July of 1989 through the policy period ended December 1994.

LPIC also had a net retention over the policy's group deductible as follows:

- July 1, 1990 to December 31, 1991: LPIC is liable for \$50,000 of all individual losses in excess of \$200,000;
- January 1, 1992 to December 31, 1992: LPIC is liable for an aggregate of \$2,500,000 from individual losses incurred in excess of \$250,000 plus a further 10% of all losses above \$250,000 once the initial \$2,500,000 limit has been reached; and
- January 1, 1993 to December 31, 1994: LPIC is liable in each policy year for an aggregate of \$4,000,000 if incurred losses are above or exceed \$250,000 plus a further 10% of all losses in excess of \$250,000 once the initial \$4,000,000 limit has been reached.

It was decided, effective January 1, 1995, to eliminate the self-insured group deductible. Commencing January 1, 1995, 100% of the risk over the individual member deductible is insured within LPIC. LPIC in turn reinsures 50% of its risk retention to third party Canadian licensed reinsurers (57% - 1995). The policy limits for the period January 1, 1996 through December 31, 1996 are \$1,000,000 per claim and \$2,000,000 per member in aggregate.

2. Significant Accounting Policies

These combined financial statements have been prepared in accordance with generally accepted accounting principles. The most significant accounting policies are as follows:

Members' Levies

Members' levies are recorded when billed with the exception of those based on volume or transactions. These latter two levies, first introduced in 1995, are recorded on a cash basis based on members' filings.

Investments

Investments in debt securities are recorded at amortized cost. Premiums and discounts from par value are amortized on a straight-line basis over the term to maturity. Investments in common or preferred shares are carried at cost. Gains and losses on investments are included in investment income when realized.

Fixed Assets

Fixed assets are presented at cost, net of accumulated depreciation and amortization. Depreciation and amortization are charged to expense on a straight-line basis over the estimated useful lives of the assets as follows:

Leasehold improvements	Term of Lease
Furniture and equipment	3 to 5 years
Software	1 to 3 years

Claims related balances

a) Provision for unpaid claims and adjustment expenses

The insurance program covers claims made against insureds in the policy period.

The provision is determined using case-basis evaluations plus an amount for future development and delayed reporting and it is an estimation of the ultimate net cost of all insurance claims to December 31, 1996. The estimates are regularly reviewed and updated and any resulting adjustments are included in current income.

The provision for unpaid claims is presented net of a discount that reflects an estimation of the investment income that will be earned on funds until they are paid out in settlement of claims. Accordingly, the provision as recorded represents fair value. The estimation of the discount is based on anticipated investment rates of return and experience with payout patterns on similar types of claims.

b) Reinsurers' share of provisions for unpaid claims and adjustment expenses

Expected reinsurance recoveries on unpaid claims and adjustment expenses are recognized as assets at the same time and using principles consistent with the Society's method for establishing the related liability.

c) Members' Deductibles

The insurance policy calls for insured members to pay deductibles ranging from Nil up to \$25,000. Expected deductible recoveries on paid and unpaid claims are recognized net of any required provision for uncollectible accounts, using principles consistent with the Company's method for establishing the related claims liability.

Income taxes

Income taxes are recorded on the tax allocation basis, whereby income taxes are recorded in the period in which transactions affect income, regardless of when such transactions are recognized for income tax purposes. Deferred income taxes arise primarily from the discounting of the provision for unpaid claims for income tax purposes.

3. The Deficit and the Viability of Ongoing Operations

The insurance program funds each year's expected costs with members levies. For various prior years, levies have proven inadequate and accordingly, the program has a deficit. That deficit is being funded by supplemental levies, over a four year period, pursuant to a plan approved by Convocation in October 1994.

The deficit of \$78,283,000 represents the estimated amount that, if fully funded as at December 31, 1996, would allow the program to realize all its assets and discharge all its obligations without any net gain or loss. Because the program intends to maintain LPIC as the insurer, and thus must maintain LPIC's capital and surplus and because the deficit is being funded over four years, the actual amounts that must be collected over the remainder of that four year period totals approximately \$127,600,000.

These financial statements have been prepared on the going concern basis of accounting on the assumption that the Society will continue to eliminate the deficit in the Errors and Omissions Insurance Fund over the remainder of the four year period; thereby allowing the Society to realize assets and discharge liabilities in the normal course of operations.

The future financial well-being of the program and its continuance could be affected by adverse changes in the frequency or severity of professional liability claims, if such adverse changes were of a magnitude that could not readily be funded by members.

Management of the program believes that the modified insurance program, commenced in late 1994, significantly reduces the potential for such adverse developments occurring.

4. Measurement Uncertainty

The settlement of professional liability claims involves processes, the outcome of which is inherently uncertain. Consequently, the estimation of the ultimate settlement costs of claims made to date, that underlies the provision for unpaid claims and adjustment expenses, involves measurement uncertainty. The amounts are necessarily based on estimates of future trends in claim severity and other factors, which could vary as the claims are settled. Ultimate costs incurred will inevitably vary from current estimates, to some extent. Although it is not possible to measure the degree of variability inherent in such estimates, management believes that the provision for unpaid claims and adjustment expenses is adequate. Estimates are reviewed at least annually by an actuary and, as adjustments to these liabilities become necessary, they are reflected in current operations.

Further, the nature of the insurance coverage, the risk retention and reinsurance structure and various management practices, including claims handling and settlement practices, were modified, commencing in late 1994, by the new management of the program. These modifications were designed to better control the level and incidence of costs incurred by the program. However, the effects of these modifications cannot be precisely measured so soon after their implementation.

There is also measurement uncertainty inherent in the estimation of reinsurance recoveries and members deductible recoveries. Management is satisfied that appropriate provisions have been made for potentially unrecoverable amounts and believes that any remaining exposure will prove immaterial to these financial statements.

The reinsurer of the program during the 1982-1989 period has notified the Society of their intention to file a claim surrounding an issue of allocation of certain costs of defense and investigation. The ultimate amount claimed in the dispute is not determinable at this time as it is largely dependent on future claims settlements. Management believes its own interpretation to be consistent with the contract between the parties as well as established insurance practice and that it has established appropriate reserves for any potential exposure.

ERRORS AND OMISSIONS INSURANCE FUND

NOTES TO COMBINED FINANCIAL STATEMENTS

5. Change in Accounting Policy

During the year, the Society adopted the provisions of the new Canadian Institute of Chartered Accountants ("CICA") presentation and disclosure standards for financial instruments. This change has been applied retroactively, with the primary effect being a gross-up of premium and claim liabilities as at December 31, 1995 related to reinsurance as follows:

	1995 (000's)	
	As reclassified	As previously reported
Assets		
Reinsurers' share of provision for unpaid claims and adjustment expenses	100,127	—
Liabilities		
Provisions for unpaid claims and adjustment expenses	324,351	224,224

There was no effect on expenses or the balance of deficit.

6. Investment Information

The Fund holds a diversified portfolio consisting of securities with investment grades of "A" or better.

Estimated fair values and unrealized gains and losses

The book values, estimated fair values and unrealized gains on investments as at December 31 were as follows:

(000's)	1996			1995		
	Book value	Estimated fair value	Yield %	Book value	Estimated fair value	Yield %
Debt Securities	107,765	110,861	4.5	104,664	106,429	6.3
Common Shares	2,761	3,110		0	0	
	<u>110,526</u>	<u>113,971</u>		<u>104,664</u>	<u>106,429</u>	

The estimated fair values of debt securities and common shares are based on quoted market values.

Liquidity and interest rate risk

The maturity profile of debt securities as at December 31, 1996 is as follows:

(000's)	Within 1 Year	1 to 3 Years	Over 3 Years	Book Value
Debt securities	13,839	76,008	17,918	107,765
Percent of total	<u>13%</u>	<u>70%</u>	<u>17%</u>	

Common shares have no specific maturities.

7. Restricted Assets

Included in the combined accounts of the Fund, are approximately \$250.4 million of LPIC assets. These assets are subject to the regulations of the Ontario Insurance Act and are available to satisfy LPIC's obligations and capital requirements, but not available to satisfy other obligations of the Fund.

ERRORS AND OMISSIONS INSURANCE FUND

NOTES TO COMBINED FINANCIAL STATEMENTS

8. Claims And Adjustment Expenses

Reinsurance Ceded

To limit losses through the spreading of risks, the Society cedes reinsurance to other insurers.

Net claims and adjustment expenses presented in the statement of revenue and expenses are net of reinsurance ceded in the amounts of \$28,305,000 (1995 - \$28,305,000).

In the event that a reinsurer is unable to meet obligations assumed under reinsurance agreements, the Society is liable for such amounts.

9. Members' Levies

Members' levies for the 1996 year include annual base levies of \$5,150 per member (1995 - \$5,600). Additional levies are charged based on a member's claims history, status, and member filings on transactions and billings. In 1996, additional levies totalled \$28,135,000 (six months ended December 31, 1995 - \$10,897,000).

10. Commitments

The Company is committed to monthly lease payments under an agreement in effect until January 31, 2002. Annual lease payments in each of the next five years are \$601,000.

The Society has guaranteed loans, made by lending institutions, to members, totalling \$250,000 [1995-\$471,000]. These arose prior to 1995. The loans were made to finance members deductibles in respect of claims paid by the program.

11. Taxation

The Errors and Omissions Insurance Fund is not subject to income or capital taxes because it is a fund of a not-for-profit corporation. LPIC is subject to taxes.

12. Comparative Financial Statements

Certain amounts in the comparative financial statements have been reclassified to conform to the presentation used in the December 31, 1996 financial statements.

In 1995, the Society changed its year end from June 30th to December 31st. Accordingly, the comparative financial statements reflect the six month period ended December 31, 1995.



Convocation Membership

Changes in the Membership of Convocation

Appointments

Joan Lax was appointed to the Ontario Court (General Division) on January 1, 1996.

Stephen T. Goudge, Q.C. was appointed to the Court of Appeal on December 19, 1996.

New Benchers

Elvio L. DelZotto, Q.C. was elected bencher on January 26, 1996 to fill the vacancy created by the appointment of Joan Lax to the Bench.

Abdul Ali Chahbar was appointed a lay bencher May 15, 1996.

Deaths

Three ex-officio benchers passed away in 1996. Robert J. Carter, Q.C. died on April 28, Stanley E. Fennell, Q.C., LSM died on July 14 and J.J. Robinette, Q.C. died on November 18.

Benchers of the Law Society of Upper Canada

Treasurer

E. Susan Elliott

Elected Benchers

Robert B. Aaron
W. Michael Adams
Robert P. Armstrong, Q.C.
Nancy L. Backhouse
Larry A. Banack
Denise E. Bellamy
Gordon Z. Bobesich
Thomas J.P. Carey
Kim A. Carpenter-Gunn
Thomas E. Cole
Paul D. Copeland
Eleanore A. Cronk
Marshall A. Crowe
Carole Curtis
Elvio L. DelZotto, Q.C.
Mary A. Eberts, LSM
Philip M. Epstein, Q.C.
Abraham Feinstein, Q.C.
Neil Finkelstein
Gary L. Gottlieb, Q.C.
Stephen T. Goudge, Q.C.
Jane Harvey
Professor Vern Krishna, Q.C.

Gavin A. MacKenzie
Ronald D. Manes
Frank N. Marrocco, Q.C.
W.A. Derry Millar
Daniel J. Murphy, Q.C.
Ross W. Murray, Q.C.
Helene B. Puccini
Heather J. Ross
Clayton C. Ruby
Harriet E. Sachs
David W. Scott, Q.C.
Tamara K. Stomp
Harvey T. Strosberg, Q.C.
Gerald A. Swaye, Q.C.
Robert C. Topp
Richmond C.E. Wilson, Q.C.
Bradley H. Wright

Appointed Benchers

Nora Angeles
Abdul Ali Chahbar
Shirley O'Connor
Hope Sealy

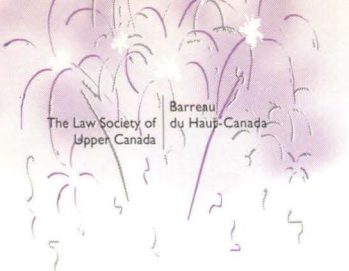
Ex-Officio Benchers

The Hon. John D. Arnup, Q.C.
F.M. Cass, Q.C.
Ronald W. Cass, Q.C.
John T. Clement, Q.C.
Austin M. Cooper, Q.C.
G.H.T. Farquharson, Q.C.
Patrick G. Furlong, Q.C.
Edwin A. Goodman, Q.C.
The Hon. Herbert E. Gray, P.C., Q.C.
Howard G. Hampton
The Hon. Charles A. Harnick, Q.C.
Robert Kemp-Welch, Q.C.
Paul Lamek, Q.C.
Donald H.L. Lamont, Q.C., LSM

The Hon. Allan Lawrence, P.C., Q.C.
Laura L. Legge, Q.C.
Samuel Lerner, Q.C.
The Hon. G. Arthur Martin, Q.C.
Brendan O'Brien, Q.C.
P.B.C. Pepper, Q.C., LSM
Alan W. Pope, Q.C.
The Hon. Allan M. Rock, P.C., Q.C.
Arthur R.A. Scace, Q.C.
Ian G. Scott, Q.C.
Nathan Strauss, Q.C., LSM
Stuart Thom, Q.C.
J. James Wardlaw, Q.C., LSM
Roger D. Yachetti, Q.C.

Honorary Benchers

Her Majesty Queen Elizabeth, The Queen Mother
His Royal Highness Prince Charles, Prince of Wales
The Right Honourable Margaret Thatcher
Kenneth P. Jarvis, Q.C., RCA
The Honourable Lincoln M. Alexander, Q.C.



Senior Management

Chief Executive Officer

John Saso (416) 947-3308

Secretary

Richard Tinsley (416) 947-3344

Chief Financial Officer

Wendy Tysall (416) 947-3322

Executive Director of Education

Alan Treleaven (416) 947-3413

Director of Bar Admissions

Margaret Angevine (416) 947-3301

Director of Human Resources

Laura Cohen (416) 947-3396

Chief Information Officer

Wayne Mowat (416) 947-3397

Director of Communications

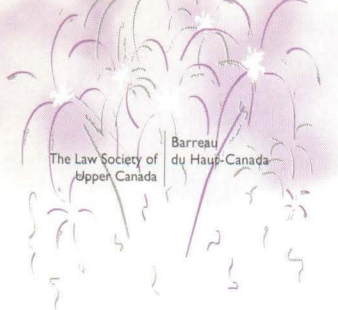
Gemma Zecchini (416) 947-7624

President of the Lawyers' Professional Indemnity Company

Malcolm Heins (416) 598-5801

Director of the Ontario Legal Aid Plan

Robert Holden (416) 979-0935



Annual General Meeting, 1997

Wednesday, May 7, 1997

Main Lecture Hall

Osgoode Hall, Toronto

Order of Business

- Minutes of the previous annual general meeting
- Report of the work of the Society and the committees of the Society and Convocation
- Presentation of the audited financial statements
- Matters of professional interest that are directly related to the work of the Society
- Motions

Motions (submitted by members of the profession)

Motion 1

Whereas the Law Society of Upper Canada has failed over 50 per cent of the 1996 French bar admission students.

And whereas some of the French bar admission students sued the Law Society of Upper Canada and the students and LSUC entered mediation. As a result of the mediation an agreement was signed by the Law Society of Upper Canada and the students and the action was dismissed without cost in consideration of the agreement.

And whereas the Law Society of Upper Canada has in bad faith ignored the terms of the agreement and failed to honour the terms of the agreement in relation to the selection of the remarkers, the instructions to the remarkers to look for linguistic problems, the failure to provide an examination preparation course and a failure to include the LAJEFO in a review of the bar admission course.

Be it resolved that the students who have failed the course not be subjected to further unfairness and that a special committee of benchers be struck composed of Francophone benchers to right the wrongs done to the students immediately.

Be it further resolved that the LSUC call to account the education committee who have set an examination system that results in an automatic failure rate of approximately 10 per cent per exam without any regard to whether the student's performance meets a minimum standard of competence. This being completely contrary to the express position of Convocation. Further, the clear effect of this method has been to set a 30 per cent overall failure rate.

Be it further resolved that if the LSUC's intention was to reduce the members that the students who entered the program be refunded their money as they were never notified of this plan.

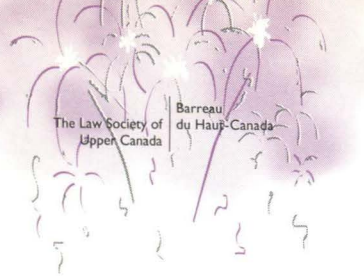
Be it further resolved that the Law Society employ the services of an expert on multi-lingual exams to determine whether it is ever fair to both the French group and the English group to have the French group write a translated exam.

Be it further resolved that the whole of the bar admission course of 1996 be reviewed by Convocation in public to determine whether the method chosen has not resulted in the unintentional discrimination against all minority groups and that if it is determined to be a problem to immediately rectify the problem for those students still seeking admission.

Be it further resolved that the French program not be offered in 1997 until such time as the LSUC reviews the whole of the program with interested French language groups.

Motion 2

Resolved that members of the Law Society of Upper Canada be permitted to place errors and omissions insurance with an insurer of their choice and not be compelled to place errors and omission insurance with the Lawyers' Professional Indemnity Company.



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The Law Society of
Upper Canada

Barreau
du Haut-Canada

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M5H 2N6

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YEARS/ANS

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